State Investment Commission

Monthly Meeting Minutes
Wednesday, April 29, 2015
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:08 a.m., Wednesday, April 29, 2015 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Paula McNamara, Mr. Thomas Mullaney, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. Frank Karpinski and Treasurer Seth Magaziner.
Also in attendance:
Mr. Dan Feeney and Mr. Coe Juracek of Crow Holdings; Mr. Alan Emkin and Mr. David Glickman of Pension Consulting Alliance (PCA), general consultant; Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Ms. Sally Dowling of Adler Pollock Sheehan; Mr. Jeffrey Padwa, General Counsel to Treasurer Magaziner; Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff. Ms. Tiffany Spudich of Capital Cities, 529 plan consultant, joined via conference call. Treasurer Magaziner called the meeting to order at 9:08 a.m. Ms. Faith LaSalle arrived at 9:11 a.m.

II. Approval of Minutes

On a motion by Mr. Fay and seconded by Mr. Reilly, it was unanimously
VOTED: to approve the draft of the minutes of the March 25, 2015 meeting of the State Investment Commission.

III. Crow Holdings Retail Fund LP

Mr. Juracek gave a brief overview of the firm and its background. He went on to review the firm's investment history. The Crow family has co-invested almost $800 million alongside investors, which brings great alignment of interest for their limited partners. The team has achieved an average IRR of 25% on realized investments.
Mr. Feeney reviewed the opportunity the fund is targeting. The fund is focusing on small retail transactions. He went on to review the opportunity in the space and Crow's strategy. He also gave an overview of their historic track record in the small retail space and of the team that specializes in the space for Crow Holdings.
Mr. Juracek reviewed some of the performance of the firm through market cycles in the retail space and how it highlights their experience in the space.
Mr. Feeney added that they have a large and experienced team with an institutional investment approach to the asset class that traditionally hasn't had institutional owners. They have a deep expertise in the value-add space.
The committee asked questions.
Representatives from Crow Holdings left the room.
The board asked questions and discussed.
On a motion by Mr. Reilly and seconded by Mr. Costello it was unanimously
VOTED: to approve a $25 million commitment in Crow Holdings Retail Fund.

IV. Real Estate Review –Pension Consulting Alliance

Mr. Glickman reviewed the Real Estate portion of the portfolio. The real estate target allocation is roughly 8%. Roughly three-quarters is to be invested in core properties that are lower risk and roughly one quarter is to be invested in riskier and more rewarding non-core properties. Over the last 12 months the committee has made several commitments, primarily to non-core funds.

He gave an overview of the current investment structure. He believes the 8% allocation will be achieved by the end of 2016 and doing so would have the proportions between the core and the non-core in place.

He talked about the expected allocations for the next two years. PCA recommends another $75 million in commitments to core. Most core commitments recommended will be re-ups to existing managers. In order to reach the non-core allocation, ERSRI would have to invest roughly $94 million. About half of those targeted commitments have been made for 2015.

Mr. Costello asked if investing in public markets was an alternative to reach the targeted allocation.

Mr. Glickman said that it is something they continually look at and the current consensus is that the public markets are just as fully valued and expensive as the core properties are and there is no huge opportunity that we can seize in the public markets. To the extent that the core money isn't being called as committed, an option would be to invest in some public securities and get closer to the target and then when money is called, to liquidate the securities and use proceeds to fund the draws.

Mr. Emkin noted that publicly traded real estate trades more like stocks than real estate and it takes away the diversification from holding direct real estate. He highlighted the need for balance between diversification efforts and reaching the target allocation.

Mr. Glickman also noted the volatility risk associated with publicly traded real estate.

Ms. Fink added that it is something PCA and staff will continue to look at and will try to be strategic about it.

The committee asked questions.

V. Quarterly Private Equity Review –Cliffwater

Mr. Lynch gave a review of the private equity portfolio for the quarter ending December 2014. He noted that not all partnerships had produced 4th quarter reports so some of the numbers were estimates.

The long-term performance of the portfolio has been good. It's a high risk asset class seeking to produce returns that exceed public equities. In the near-term, performance has not been great due to significant exposure to partnerships from 2005, 2006 and 2007. The portfolio also does not have any investments in 2009 and 2010 and those were some of the best performing vintage years.

Since 2011, ERSRI has upgraded the quality of manager relationships and have enough commitments that it's not necessary to be aggressive to achieve the 7% allocation.

Mr. Lynch reviewed the performance of the portfolio and commitments made since inception. The portfolio has generated a 13.62% return. He said over the history, private equity has been the best performers in the portfolio.

He went on to review commitments that closed in 2014. Some of those commitments increased diversification by adding Asia and exposure to the smaller end of the buyout market.

He gave an overview of the performance for 2014. Among the best performers were life sciences venture capital funds. The disappointing drivers were the decline of the Euro, the decline in energy prices, and some technology venture capital funds.

He reviewed returns and commitments by vintage years. He said the portfolio is well-diversified by sector and, in general, maintaining good vintage year diversification.

Looking ahead, the goal is to attain and maintain the target allocation of 7% in private equity. Cliffwater's recommendation is to keep commitments around $110 to $120 million.
He added that Cliffwater has Luxor Capital on their watch list due to performance in 2014. So far in 2015, they are pleased with what Luxor Capital is doing in risk control and performance but will continue to monitor the fund.
The committee asked questions.

VI. Defined Benefit Investment Policy Statement Review

Ms. Fink said she and staff have been working to create a comprehensive investment policy. The goal is to add roles and expectations for each asset class to make sure everything is working in conjunction to create the best performance for the overall portfolio.
She reviewed a draft of the roles and expectations for the core fixed income, inflation linked bonds, and credit portfolios that had been previously distributed to the committee. She welcomed feedback and any suggestions from the committee.
The committee asked questions and discussed.

VII. Legal Counsel Report

There was no legal counsel report.

VIII. Chief Investment Officer Report

Ms. Fink reviewed the performance of the portfolio and the market environment for the month of March. The fund was down less than 0.5% which was a bit better than the bottom-up benchmark and considerably better than the 60/40 basic allocation. Fiscal-year-to-date, the fund was up 1.8% and a bit ahead of both the benchmark and the 60/40 allocation. She highlighted that the results in the portfolio were achieved by lowering the risk of the plan through diversification. The 3-year performance is ahead of both the benchmark and the 60/40 with less risk. She noted that the best performance in the month were the two categories of hedge funds both up about 0.9%. Also, the MLP manager has substantially outperformed the index even though the allocation is down 2.6%.
Treasurer Magaziner noted the first quarter's performance was great and it was because the strategy is working. He urged the committee to continue to focus on long-term returns.
Ms. Fink added that the allocation to infrastructure manager IFM Global was called. Also, the sale of interest in Wellspring IV has been executed at a good price and it will close on June 30th.
She noted some new initiatives she and staff are working on. One is to continue replenishing the hedge fund allocations and find funds that are additive to the portfolio. Additionally, the analysis of factor tilts looks promising so far so they look forward to coming back with more concrete information at a later meeting.

IX. Treasurer's General Comments

Treasurer Magaziner thanked the board for their time and their continued work.

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Costello the meeting adjourned at 10:38 a.m.

Respectfully submitted,

Seth Magaziner,
General Treasurer